

WINTERSET MUNICIPAL UTILITIES
WINTERSET, IOWA

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENT
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS

Year Ended December 31, 2020

Table of Contents

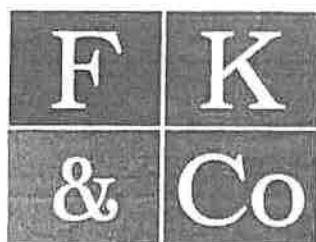
	<u>Page</u>
Officials	3
Independent Auditor's Report	5-6
Financial Statement:	<u>Exhibit</u>
Statement of Cash Receipts, Disbursements and Changes in Cash Balance	A 8
Notes to Financial Statement	9-15
Other Information:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balance - Budget and Actual	17
Notes to Other Information - Budgetary Reporting	18
Supplementary Information:	<u>Schedule</u>
Schedule of Indebtedness	1 20
Bond Maturities	2 21
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of a Financial Statement Performed in Accordance with <u>Government</u> <u>Auditing Standards</u>	22-23
Schedule of Findings	24-28

WINTERSET MUNICIPAL UTILITIES

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Gary Emmert	Chairperson	March 8, 2023
Wendy Frost	Vice-Chair	March 8, 2025
Steve Montross	Trustee	March 8, 2021
Stephen Scott Wesselmann	General Manager	Indefinite
Chuck Johnson	Electric Superintendent	Indefinite
Steve Benshoof	Water Superintendent	Indefinite

Winterset Municipal Utilities



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of the
Winterset Municipal Utilities:

Report on the Financial Statement

We have audited the accompanying financial statement of each major fund of the Winterset Municipal Utilities, Winterset, Iowa, (Utilities) as of and for the year ended December 31, 2020, and the related Notes to Financial Statement, which collectively comprise the Utilities' financial statement listed in the table of contents.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on this financial statement based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Utilities' preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Utilities' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statement referred to above presents fairly, in all material respects, the respective cash basis financial position of each major fund of the Utilities as of December 31, 2020, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As discussed in Note 1, this financial statement was prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Also, as discussed in Note 1, the financial statement of the Utilities is intended to present only the results of the transactions of that portion of the financial reporting entity of the City of Winterset that is attributable to the transactions of the Utilities. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the Utilities' financial statement. The supplementary information included in Schedules 1 through 2 is presented for purposes of additional analysis and is not a required part of the basic financial statement. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statement taken as a whole.

The other information consisting of the Budgetary Comparison Information on pages 17 through 18 has not been subjected to the auditing procedures applied in the audit of the basic financial statement and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated July 20, 2021 on our consideration of Utilities internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Utilities' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Utilities' internal control over financial reporting and compliance.



Faller, Kincheloe & Co., PLC

July 20, 2021

Financial Statement

WINTERSET MUNICIPAL UTILITIES

Exhibit A

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES

As of and for the year ended December 31, 2020

	Water	Electric	Total
Operating receipts:			
Charges for service	\$ 2,362,098	5,430,586	7,792,684
Miscellaneous	98,483	308,467	406,950
Total operating receipts	2,460,581	5,739,053	8,199,634
Operating disbursements:			
Business type activities	1,516,617	4,536,174	6,052,791
Total operating disbursements	1,516,617	4,536,174	6,052,791
Excess of operating receipts over operating disbursements	943,964	1,202,879	2,146,843
Non-operating receipts (disbursements):			
Intergovernmental	-	14,577	14,577
Interest on investments	25,938	35,649	61,587
Rental income	21,182	-	21,182
Sale of capital assets and scrap	-	1,220	1,220
Sewer and garbage fees collected for City	163,068	-	163,068
Sewer and garbage fees remitted to City	(163,068)	-	(163,068)
Revenue bond proceeds (net of \$307,670 premium)	4,757,670	-	4,757,670
Debt service	(892,939)	(328,315)	(1,221,254)
Payment to bond refunding agent	(4,780,000)	-	(4,780,000)
Capital outlay	(105,654)	(166,311)	(271,965)
Net non-operating receipts (disbursements)	(973,803)	(443,180)	(1,416,983)
Change in cash balances	(29,839)	759,699	729,860
Cash balances beginning of year	2,821,622	6,151,496	8,973,118
Cash balances end of year	\$ 2,791,783	6,911,195	9,702,978
Cash Basis Fund Balance			
Restricted for:			
Sinking account	\$ 421,836	154,099	575,935
Reserve account	659,825	131,500	791,325
Improvement account	300,000	200,000	500,000
Total restricted cash basis fund balance	1,381,661	485,599	1,867,260
Unrestricted	1,410,122	6,425,596	7,835,718
Total cash basis fund balances	\$ 2,791,783	6,911,195	9,702,978

See notes to financial statement.

WINTERSET MUNICIPAL UTILITIES

NOTES TO FINANCIAL STATEMENT

December 31, 2020

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Winterset Municipal Utilities (Utilities) is a component unit of the City of Winterset, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board. The Utilities is governed by a three-member Board of Trustees appointed by the Mayor, subject to the approval of the City Council, which exercises oversight responsibility under this criteria.

B. Basis of Presentation

The accounts of the Utilities are organized as an Enterprise Fund. Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services supported by user charges.

Enterprise Funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an Enterprise Fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

Major individual funds are reported as separate columns in the financial statement.

The Utilities reports the following major proprietary funds:

- The Enterprise, Water Fund accounts for the operation and maintenance of the Utilities water system.
- The Enterprise, Electric Fund accounts for the operation and maintenance of the Utilities electric system.

C. Basis of Accounting

The Utilities maintains its financial records on the basis of cash receipts and disbursements and the financial statement of the Utilities is prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statement does not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

D. Restricted Fund Balance

Funds set aside for the sinking account, reserve account and the improvement account are classified as restricted.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information.

Note 2. Cash and Cash Equivalents

The Utilities' deposits in bank at December 31, 2020 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utilities is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Utility Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

The Utilities had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 72.

Note 3. Revenue Bonds Payable

A summary of changes in water revenue bonds and electric revenue bonds payable for the year ended December 31, 2020 is as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Business type activities:					
Revenue Bonds:					
Water	\$ 8,665,000	4,450,000	5,265,000	7,850,000	395,000
Electric	770,000	-	185,000	585,000	190,000
Direct Placement:					
Electric Revenue Bonds	2,047,000	-	66,000	1,981,000	67,000
Business-type activities total	\$11,482,000	4,450,000	5,516,000	10,416,000	652,000

Water Revenue Bonds

A summary of the Utilities December 31, 2020 water revenue bonds payable is as follows:

Year Ending December 31,	Water Issued August 1, 2014		
	Interest Rates	Principal	Interest
2021	2.00%	\$ 200,000	116,875
2022	2.50%	200,000	112,875
2023	3.00%	210,000	107,875
2024	3.00%	215,000	101,575
2025	3.00%	220,000	95,125
2026-2030	3.10-3.75%	1,210,000	363,875
2031-2035	4.00%	1,145,000	116,800
		<u>\$3,400,000</u>	<u>1,015,000</u>

Note 3. Revenue Bonds Payable (continued)

Year Ending December 31,	Water Revenue and Refunding			Total		
	Issued July 7, 2020					
	Interest Rates	Principal	Interest	Principal	Interest	Total
2021	4.00%	\$ 195,000	128,100	395,000	244,975	639,975
2022	4.00%	225,000	120,300	425,000	233,175	658,175
2023	4.00%	230,000	111,300	440,000	219,175	659,175
2024	4.00%	240,000	102,100	455,000	203,675	658,675
2025	4.00%	250,000	92,500	470,000	187,625	657,625
2026-2030	2.00-4.00%	1,410,000	309,800	2,620,000	673,675	3,293,675
2031-2035	2.00%	1,900,000	127,800	3,045,000	244,600	3,289,600
		<u>\$4,450,000</u>	<u>991,900</u>	<u>7,850,000</u>	<u>2,006,900</u>	<u>9,856,900</u>

Water Revenue Bonds

The Utilities has pledged future water customer receipts, net of specified operating disbursements, to repay \$4,500,000 in water revenue bonds issued in 2014, and \$4,450,000 in water revenue bonds issued in 2020. Proceeds from the bonds provided financing for the construction of water main replacements, dredging of the lake, and to refund an older debt issue. The bonds are payable solely from water customer net receipts and are payable through 2035. Annual principal and interest payments on the bonds are expected to require less than 85% of net receipts. The total principal and interest remaining to be paid on the bonds is \$9,856,900. For the current year, principal and interest paid and total customer net receipts were \$795,635 and \$943,964, respectively.

The resolutions providing for the issuance of the water revenue bonds include the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the water system and the bond holders hold a lien on the future earnings of the water system.
- (b) The Board shall establish a rate to be charged to customers in order to produce gross revenues at least sufficient to pay expenses of the operation and maintenance of the Utility, and to leave a balance of net revenues equal to at least 125% of the principal and interest of all outstanding bonds and notes due in the fiscal year.
- (c) Monthly transfers of 1/6 of the installment of interest next due and 1/12 of the installment of principal next due shall be made to a water revenue bond and interest sinking account. Monies in this account are to be used solely for the purpose of paying principal and interest on the bonds.
- (d) A total of \$659,825 shall be maintained in a reserve account.
- (e) A total of \$300,000 shall be maintained in an improvement account.
- (f) All users of the system, including the City, shall pay for usage.
- (g) All funds remaining after payment of all maintenance and operating expenses and the transfers to the restricted accounts noted above can be used to pay for extraordinary repairs or replacements to the water system, may be used to pay or redeem any bonds, and then can be used for any lawful purpose.

During fiscal year 2020, sufficient user rates were not established at a level to produce net revenues equal to at least 125% of the principal and interest on the revenue bonds as they become due.

Note 3. Revenue Bonds Payable (continued)

Water Revenue Refunding Bonds

In July 2020, the Utilities issued \$4,450,000 of water revenue refunding bonds. The bonds were issued, combined with existing monies on hand, to refund \$4,780,000 of the \$6,720,000 water improvement and refunding bonds issued on October 1, 2013.

The Utilities obtained an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$704,159 on the refunding.

Electric Revenue Bonds

A summary of the Utilities December 31, 2020 electric revenue bonds payable is as follows:

Year Ending December 31,	Electric Revenue Refunding Issued November 1, 2016			Total		
	Interest	Principal	Interest	Principal	Interest	Total
	Rates					
2021	2.00%	\$ 190,000	11,700	190,000	11,700	201,700
2022	2.00%	195,000	7,900	195,000	7,900	202,900
2023	2.00%	200,000	4,000	200,000	4,000	204,000
		<u>\$ 585,000</u>	<u>23,600</u>	<u>585,000</u>	<u>23,600</u>	<u>608,600</u>

Direct Placement - Electric Revenue Bonds

A summary of the Utilities December 31, 2020 direct placement electric revenue bonds payable is as follows:

Year Ending December 31,	Electric Issued May 16, 2017			Total		
	Interest	Principal	Interest	Principal	Interest	Total
	Rates					
2021	3.00%	\$ 67,000	59,430	67,000	59,430	126,430
2022	3.00%	68,000	57,420	68,000	57,420	125,420
2023	3.00%	68,000	55,380	68,000	55,380	123,380
2024	3.00%	274,000	53,340	274,000	53,340	327,340
2025	3.00%	283,000	45,120	283,000	45,120	328,120
2026-2029	3.00%	1,221,000	92,970	1,221,000	92,970	1,313,970
		<u>\$1,981,000</u>	<u>363,660</u>	<u>1,981,000</u>	<u>363,660</u>	<u>2,344,660</u>

Electric Revenue Bonds

The Utilities has pledged future electric customer receipts, net of specified operating disbursements, to repay \$1,315,000 in electric revenue bonds issued in 2016, and to repay \$2,141,000 in electric revenue bonds issued in 2017. Proceeds from the bonds were used to refund an older debt issue and to provide financing for the construction of improvements to the electric distribution system. The bonds are payable solely from electric customer net receipts and are payable through 2029. Annual principal and interest payments on the bonds are expected to require less than 28% of net receipts. The total principal and interest remaining to be paid on the bonds is \$2,344,660. For the current year, principal and interest paid and total customer net receipts were \$327,810 and \$1,202,879, respectively.

The resolutions providing for the issuance of the electric revenue bonds include the following provisions:

Note 3. Revenue Bonds Payable (continued)

- (a) The bonds will only be redeemed from the future earnings of the electric system and the bond holders hold a lien on the future earnings of the electric system.
- (b) The Board shall establish a rate to be charged to customers in order to produce gross revenues at least sufficient to pay expenses of the operation and maintenance of the Utility, and to leave a balance of net revenues equal to at least 110% of the principal and interest of all outstanding bonds and notes due in the fiscal year.
- (c) Monthly transfers of 1/6 of the installment of interest next due and 1/12 of the installment of principal next due shall be made to a water revenue bond and interest sinking account. Monies in this fund are to be used solely for the purpose of paying principal and interest on the bonds.
- (d) A total of \$131,500 shall be maintained in a reserve account.
- (e) A total of \$200,000 shall be maintained in an improvement account. However, if funds are used from the improvement account for specified purposes, the sum of \$3,500 shall be transferred to this account on the first day of each month of each year until such time as the required improvement fund balance has been restored.
- (f) All users of the system, including the City, shall pay for usage.
- (g) All funds remaining after payment of all maintenance and operating expenses and the transfers to the restricted accounts noted above can be used to pay for extraordinary repairs or replacements to the electric system, may be used to pay or redeem any bonds, and then can be used for any lawful purpose.

Note 4. Pension and Retirement Benefits

The Utilities, through the City of Winterset, contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. The Utilities reimburses the City of Winterset for the Utilities' share of the IPERS cost. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members were required to contribute 6.29% of their annual covered salary and the Utilities, through the City of Winterset, was required to contribute 9.44% of annual covered salary. Contribution requirements are established by state statute. The Utilities' contributions to the City of Winterset for the Utilities' share of the IPERS costs for the years ended December 31, 2020, 2019 and 2018 were \$98,552, \$96,055 and \$87,411 respectively, equal to the required contributions for each year.

Note 5. Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use of or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The Utilities' approximate liability for earned vacation and sick leave termination payments payable to City employees who are paid from the Utilities' funds at December 31, 2020 is \$161,917. The liability has been computed based on rates of pay in effect at December 31, 2020.

Note 6. Lease Agreements Receivable

The Utilities has two lease agreements receivable in effect as of December 31, 2020.

- (a) The Utilities is leasing out a house on a month to month basis. The Utilities received \$8,650 from this lease in fiscal year 2020.
- (b) The Utilities is leasing antenna space on the water tower to Iowa Wireless Services, LLC (tenant). The initial term of the lease began in September, 2005. The Utilities received \$12,532 from this lease in fiscal year 2020, and is scheduled to receive \$1,400 per month from this lease until August, 2025. Unless the tenant decides to terminate the lease, the tenant has the option to exercise its option to renew the lease for (5) additional successive (5) year terms.

During the fiscal year, payments received in relation to these two lease agreements totaled \$21,182.

Note 7. Lease Agreements Payable

The Utilities entered into a lease in 2013 to lease ground to store the dredge material from the lake. Payment terms consist of two payments of \$15,000 per year, for a total of \$30,000 per year. The lease expires on December 31, 2022, at which time the lessor will be the sole owner of the dredge material. The lessor has the option to remove portions of the material from the property prior to December 31, 2022, at which time the lease payment to the lessor will be reduced, based on a pre-determined formula amount. As of December 31, 2020, the lessor exercised its option to remove portions of the material from the property, and the Utilities is currently paying the lessor \$15,000 per year.

The following is a schedule of future payments required under this operating lease:

Year Ended December 31,	Amount
2021	\$ 15,000
2022	15,000
Total	<u>\$ 30,000</u>

During the fiscal year, payments made under this lease agreement were \$15,000.

Note 8. Risk Management

The Utilities is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Utilities assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 9. Contract

The Utilities is one of 15 municipal utility members of the South Iowa Municipal Electric Cooperative Association (SIMECA). SIMECA is a member of the Central Iowa Power Cooperative (CIPCO).

SIMECA is organized to purchase, generate, transmit, or distribute electric energy and to develop and establish safety programs for the benefit of its municipal members. The Utilities signed purchasing agreements with SIMECA in 1986, 1994, 2006 and a new long-term agreement in 2013. SIMECA has contracted with CIPCO for the electrical power and transmission needs of its members. SIMECA and CIPCO have agreed to a new contract through May 31, 2053. Profits from SIMECA are returned to its members as patronage refund dividends. There are no minimum payments required by this contract.

Note 10. Commitment

The Utilities signed a contract with a vendor to provide water tower inspection services over the next eight years. The remaining cost of this contract over the remaining eight year period is \$343,005, with approximately \$40,000 due to the vendor per year.

Note 11. COVID-19

In March 2020, the COVID-19 outbreak was declared a global pandemic. The disruption to businesses across a range of industries in the United States continues to evolve. The full impact to local, regional and national economies, including that of the Utilities, remains uncertain.

To date, the outbreak has not created a material disruption to the operations of the Utilities. However, the extent of the financial impact of COVID-19 will depend on future developments, including the spread of the virus, duration and timing of the economic recovery. Due to these uncertainties, management cannot reasonably estimate the potential impact to the Utilities.

Note 12. Subsequent Events

The Utilities has evaluated subsequent events through July 20, 2021, which is the date that the financial statement was available to be issued.

The Utilities have implemented procedures to issue \$3,165,000 of Water Revenue Refunding Bonds, Series 2021A in July 2021. The proceeds of this debt will be used to current refund existing outstanding debt of the Utilities.

The Utilities have implemented procedures to issue \$2,400,000 of Electric Revenue Bonds, Series 2021B in July 2021. The proceeds of this debt will be used to make improvement to the Electric Utility.

Other Information

WINTERSET MUNICIPAL UTILITIES

BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCE -
BUDGET AND ACTUAL (CASH BASIS)
OTHER INFORMATION

Year ended December 31, 2020

	Actual	Less Funds not Required to be Budgeted	Net	Budgeted Amounts Original	Original to Net Variance
Receipts:					
Use of money and property	\$ 82,769	-	82,769	44,200	38,569
Intergovernmental	14,577	-	14,577	-	14,577
Charges for service	7,955,752	163,068	7,792,684	7,772,000	20,684
Miscellaneous	406,950	-	406,950	329,000	77,950
Total receipts	8,460,048	163,068	8,296,980	8,145,200	151,780
Disbursements:					
Business type activities	7,709,078	163,068	7,546,010	8,117,695	571,685
Excess of receipts over disbursements	750,970	-	750,970	27,505	723,465
Other financing sources (uses), net	(21,110)	-	(21,110)	-	(21,110)
Change in fund balances	729,860	-	729,860	27,505	702,355
Balances beginning of year	8,973,118	-	8,973,118	9,262,719	(289,601)
Balances end of year	\$ 9,702,978	-	9,702,978	9,290,224	412,754

See accompanying independent auditor's report.

WINTERSET MUNICIPAL UTILITIES

NOTES TO OTHER INFORMATION – BUDGETARY REPORTING

December 31, 2020

The Winterset Municipal Utilities (Utilities) prepares a budget on the cash basis of accounting for all funds, except sewer and garbage fees collected for and remitted to the City, and submits it to the City Council. In accordance with the Code of Iowa, the City Council annually adopts a budget, which includes the Utilities, on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon classes of disbursements known as functions, not by fund. The Utilities disbursements are budgeted in the business type activities function. During the year, there were no budget amendments.

During the year ended December 31, 2020, disbursements did not exceed the amounts budgeted.

Supplementary Information

WINTERSET MUNICIPAL UTILITIES

Schedule I

SCHEDULE OF INDEBTEDNESS

Year ended December 31, 2020

Obligation	Date of Issue	Interest Rate	Amount Originally Issued
Revenue Bonds -			
Water Improvement and Refunding	10/01/13	2.00-4.50%	\$ 6,720,000
Water	08/01/14	2.00-4.00%	4,500,000
Water Revenue Refunding	7/7/2020	2.00-4.00%	4,450,000
Electric Revenue Refunding	11/01/16	1.50-2.00%	1,315,000
Electric	05/16/17	3.00%	2,141,000

Date of Issue	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
10/01/13	\$ 5,070,000	-	5,070,000	-	189,860	-
08/01/14	3,595,000	-	195,000	3,400,000	120,775	-
07/07/20	-	4,450,000	-	4,450,000	-	-
Total	\$ 8,665,000	4,450,000	5,265,000	7,850,000	310,635	-
11/01/16	\$ 770,000	-	185,000	585,000	15,400	-
05/16/17	2,047,000	-	66,000	1,981,000	61,410	-
Total	\$ 2,817,000	-	251,000	2,566,000	76,810	-

See accompanying independent auditor's report.

WINTERSET MUNICIPAL UTILITIES

Schedule 2

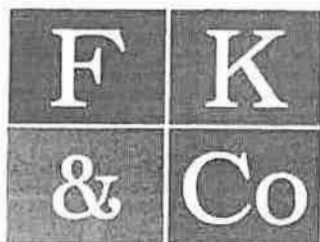
BOND MATURITIES

December 31, 2020

Year Ending June 30,	Water				
	Water		Water Revenue Refunding		Total
	Issued August 1, 2014		Issued July 7, 2020		
	Interest Rates	Amount	Interest Rates	Amount	
2021	2.00%	\$ 200,000	4.00%	\$ 195,000	395,000
2022	2.50%	200,000	4.00%	225,000	425,000
2023	3.00%	210,000	4.00%	230,000	440,000
2024	3.00%	215,000	4.00%	240,000	455,000
2025	3.00%	220,000	4.00%	250,000	470,000
2026	3.10%	225,000	4.00%	260,000	485,000
2027	3.50%	235,000	4.00%	270,000	505,000
2028	3.50%	240,000	4.00%	285,000	525,000
2029	3.75%	250,000	2.00%	295,000	545,000
2030	3.75%	260,000	2.00%	300,000	560,000
2031	4.00%	270,000	2.00%	305,000	575,000
2032	4.00%	280,000	2.00%	310,000	590,000
2033	4.00%	290,000	2.00%	320,000	610,000
2034	4.00%	305,000	2.00%	320,000	625,000
2035	-	-	2.00%	645,000	645,000
		<u>\$ 3,400,000</u>		<u>\$ 4,450,000</u>	<u>7,850,000</u>

Year Ending June 30,	Electric				
	Electric Revenue Refunding		Electric		Total
	Issued November 1, 2016		Issued May 16, 2017		
	Interest Rates	Amount	Interest Rates	Amount	
2021	2.00%	\$ 190,000	3.00%	\$ 67,000	257,000
2022	2.00%	195,000	3.00%	68,000	263,000
2023	2.00%	200,000	3.00%	68,000	268,000
2024	-	-	3.00%	274,000	274,000
2025	-	-	3.00%	283,000	283,000
2026	-	-	3.00%	291,000	291,000
2027	-	-	3.00%	301,000	301,000
2028	-	-	3.00%	310,000	310,000
2029	-	-	3.00%	319,000	319,000
		<u>\$ 585,000</u>		<u>\$ 1,981,000</u>	<u>2,566,000</u>

See accompanying independent auditor's report.



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF A FINANCIAL STATEMENT PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

To the Board of Trustees of the
Winterset Municipal Utilities:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statement of each major fund of the Winterset Municipal Utilities, Winterset, Iowa (Utilities), as of and for the year ended December 31, 2020, and the related Notes to Financial Statement, which collectively comprise the Utilities financial statement, and have issued our report thereon dated July 20, 2021. Our report expressed an unmodified opinion on the financial statement which was prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Utilities' internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing our opinion on the effectiveness of the Utilities' internal control. Accordingly, we do not express an opinion on the effectiveness of the Utilities' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses and a significant deficiency.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control described in the accompanying Schedule of Findings as items I-A-20, I-B-20, I-C-20 and I-D-20 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings as item I-E-20 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Utilities' financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended December 31, 2020 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statement of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Utilities Responses to the Findings

The Utilities' responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The Utilities' responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the Utilities' internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Utilities' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



Faller, Kincheloe & Co., PLC

July 20, 2021

WINTERSET MUNICIPAL UTILITIES

SCHEDULE OF FINDINGS

Year ended December 31, 2020

Part I: Findings Related to the Financial Statement:

INTERNAL CONTROL DEFICIENCIES:

I-A-20 Segregation of Duties

Criteria – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the Winterset Municipal Utilities (Utilities) financial statement.

Condition – The issuance of receipt slips, bank deposits and the posting of the cash receipts to the accounting records are sometimes all done by the same person. Also, bank accounts are not reconciled by an individual who does not handle or record cash. Mail is opened by accounting personnel with access to the accounting records. In addition, the duties for maintaining accounts receivable are not separate from those of processing collections and deposits.

Cause – The City has a limited number of employees and procedures have not been designed to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect – Inadequate segregation of duties could adversely affect the Utilities ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation – The Utilities should review its control activities to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including appointed officials, to provide additional control through review of financial transactions, reconciliations and reports.

Response – We will evaluate this and attempt to segregate duties as much as possible.

Conclusion – Response acknowledged.

I-B-20 Preparation of Financial Statement

Criteria - A properly designed system of internal control over financial reporting includes the preparation of an entity's financial statement and accompanying notes to the financial statement by internal personnel of the entity.

Condition - As auditors, we were requested to draft the financial statement and accompanying notes to the financial statement. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Cause - We recognize that with a limited number of office employees, preparation of the financial statement and accompanying notes to the financial statement is difficult.

Effect - The effect of this condition is that the year-end financial reporting is prepared by a party outside of the Utilities. The outside party does not have the constant contact with ongoing financial transactions.

WINTERSET MUNICIPAL UTILITIES

SCHEDULE OF FINDINGS

Year ended December 31, 2020

Recommendation - We recommend that Utilities officials continue reviewing operating procedures in order to obtain the maximum internal control possible under the circumstances to enable staff to draft the financial statement and accompanying notes to the financial statement internally.

Response - These are very technical issues that the average citizen would not understand. This issue relates to auditor independence issues, and we accept the risk associated with not being able to prepare these documents and apply accounting principles in accordance with an other comprehensive basis of accounting.

Conclusion - Response acknowledged.

I-C-20 Material Adjustments

Criteria - A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statement on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the Utilities financial statement.

Condition - A material amount of transactions were not properly recorded in the Utility financial records according to the Uniform Chart of Accounts. Adjustments were subsequently made by the Utilities to properly include these amounts in the financial statement.

Cause - Utility policies do not require and procedures have not been established to require independent review of financial records to ensure the Utilities financial records are properly recorded.

Effect - Lack of policies and procedures resulted in City employees not detecting the errors in the normal course of performing their assigned functions. As a result, material adjustments to the Utility financial records were necessary.

Recommendation - The Utility should ensure all transactions are properly recorded in the Utility financial records according to the Uniform Chart of Accounts.

Response - The Utility will attempt to implement this recommendation.

Conclusion - Response acknowledged.

I-D-20 Reconciliation of Utility Billings, Collections and Delinquent Accounts

Criteria - An effective internal control system provides for internal controls related to reconciling utility billings, collections and delinquent accounts to ensure proper recording of utility receipts, the propriety of adjustments and write-offs and the propriety of delinquent accounts.

Condition - Although the Utilities software program generates monthly reports of utility billings, collections and delinquent accounts, the amounts are not reconciled from month to month.

Cause - Policies have not been established and procedures have not been implemented to ensure monthly utility billings, collections and delinquent accounts are reconciled each month to the Utilities financial and utility billing records.

WINTERSET MUNICIPAL UTILITIES

SCHEDULE OF FINDINGS

Year ended December 31, 2020

Effect – Inadequate reconciliations can result in unrecorded or misstated utility receipts and improper or unauthorized adjustments and write-offs.

Recommendation – The Utilities should ensure all amounts on the reconciliations of utility billings, collections and delinquent accounts are properly supported.

Response – The Utilities will ensure utility reconciliations are properly supported and reviewed.

Conclusion – Response acknowledged.

I-E-20 Meter Deposits

Criteria – An effective internal control system provides for internal controls related to reconciling the dollar amount of meter deposits on hand with the dollar amount of cash recorded in the meter deposit account.

Condition – Although the Utility maintains a list of utility deposits received, the Utility does not maintain a separate meter deposit account.

Cause – Policies and procedures have not been implemented to ensure a separate meter deposit account is maintained.

Effect – This condition could result in unrecorded, misstated, improper or unauthorized adjustments to the meter deposit amounts.

Recommendation – To properly identify amounts due to customers for deposits, the Utility should separate utility deposit activity from the Enterprise, Water Fund and establish a separate meter deposit account. The balance in this account should be periodically reconciled with the Utilities detailed listing of meter deposits on hand.

Response – We will implement these recommendations.

Conclusion – Response acknowledged.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

WINTERSET MUNICIPAL UTILITIES

SCHEDULE OF FINDINGS

Year ended December 31, 2020

Other Findings Related to Required Statutory Reporting:

- II-A-20 Certified Budget – The budget certified by the City of Winterset includes an amount for the Winterset Municipal Utilities (Utilities). Disbursements during the year ended December 31, 2020 did not exceed the amount budgeted.
- II-B-20 Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- II-C-20 Travel Expense – No disbursements of Utilities money for travel expenses of spouses of Utilities officials or employees were noted.
- II-D-20 Business Transactions – No business transactions between the Utilities and Utilities officials or employees were noted.
- II-E-20 Restricted Donor Activity – No transactions were noted between the Utilities, Utilities officials, Utilities employees and restricted donors in compliance with Chapter 68B of the Code of Iowa.
- II-F-20 Bond Coverage – Surety bond coverage of Utilities officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- II-G-20 Board of Trustee Minutes – One transaction was found that we believe should have been approved in the trustee minutes but were not. In addition, there was no supporting documentation for this transaction. Also, this invoice was not published in the newspaper. Chapter 388.4 of the Code of Iowa requires that all claims allowed, the name of the person or firm making the claim, the reason for the claim and the amount of the claim be published in a newspaper of general circulation of the city.

Recommendation – The Utilities implement procedures to ensure all claims are approved by the Board of Trustees, supporting documentation exists for all claims, and that all invoices are published in the newspaper, as required by Chapter 388.4 of the Code of Iowa.

Response – The invoice in question was an oversight on our part. This will be implemented in the future.

Conclusion – Response acknowledged.

- II-H-20 Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities' investment policy were noted.
- II-I-20 Revenue Bonds – Except as noted below, no instances of non-compliance with the water and electric revenue bond requirements for the fiscal year ended December 31, 2020 were noted.

The water revenue bond resolutions require the Utilities "leave a balance of net revenues equal to at least 125% of the average annual installments of principal of and interest on all of the bonds and any other parity obligations due in such fiscal year, as they become due."

The Utilities fiscal year 2020 net water operating income of \$943,964 is less than 125% of the \$795,635 of water revenue bonds principal and interest due during fiscal year 2020.

Recommendation – The Utilities should consult legal counsel to determine the disposition of this matter and should implement procedures to ensure water revenue bond requirements are met in the future.

WINTERSET MUNICIPAL UTILITIES

SCHEDULE OF FINDINGS

Year ended December 31, 2020

Response – We will attempt to implement this recommendation.

Conclusion – Response acknowledged.

- II-J-20 Unclaimed Property – Chapter 556.11 of the Code of Iowa requires each government entity to report and remit obligations, including checks outstanding for more than two years to the Office of Treasurer of State annually. The Utility did not remit these obligations as required.

Recommendation – The outstanding checks should be reviewed annually and items over two years old should be remitted to the Office of Treasurer of State as required.

Response – We will look into this.

Conclusion – Response acknowledged.

- II-K-20 Bad Debt – Currently, the Utilities bills a customer three times for utility usage. If the customer does not pay the account is written off as uncollectible.

Recommendation – The Utilities should consider turning over delinquent accounts to a collection agency, the County Treasurer or the State of Iowa for collection.

Response – We will review this to determine the best course of action.

Conclusion – Response acknowledged.

- II-L-20 Payment of Debt – The Utilities issued \$4,450,000 in debt on July 7, 2020. The financial advisor retained these funds in their bank account in order to early pay existing debt on September 1, 2020. Between the period from July 7, 2020 to September 1, 2020, the Utilities was a general creditor of the financial advisor. In addition, since these monies are public funds, these funds should be in the Utilities control, such as in the Utilities bank account.

In order to reduce the risk to the Utilities, and to ensure that all public monies are under the control of the Utilities, the \$4,450,000 should have been credited to the Utilities' bank account and not the bank account of the financial advisor. The Utilities should then have directly paid the bond paying agent on September 1, 2020.

Recommendation – The Utilities should consult with legal counsel regarding the disposition of this matter. In addition, in the future, the Utilities should ensure all public funds are under the control of the Utilities, as required by the Code of Iowa.

Response – Should this ever happen in the future, we will consult with our attorney in relation to the best course of action.

Conclusion – Response acknowledged.